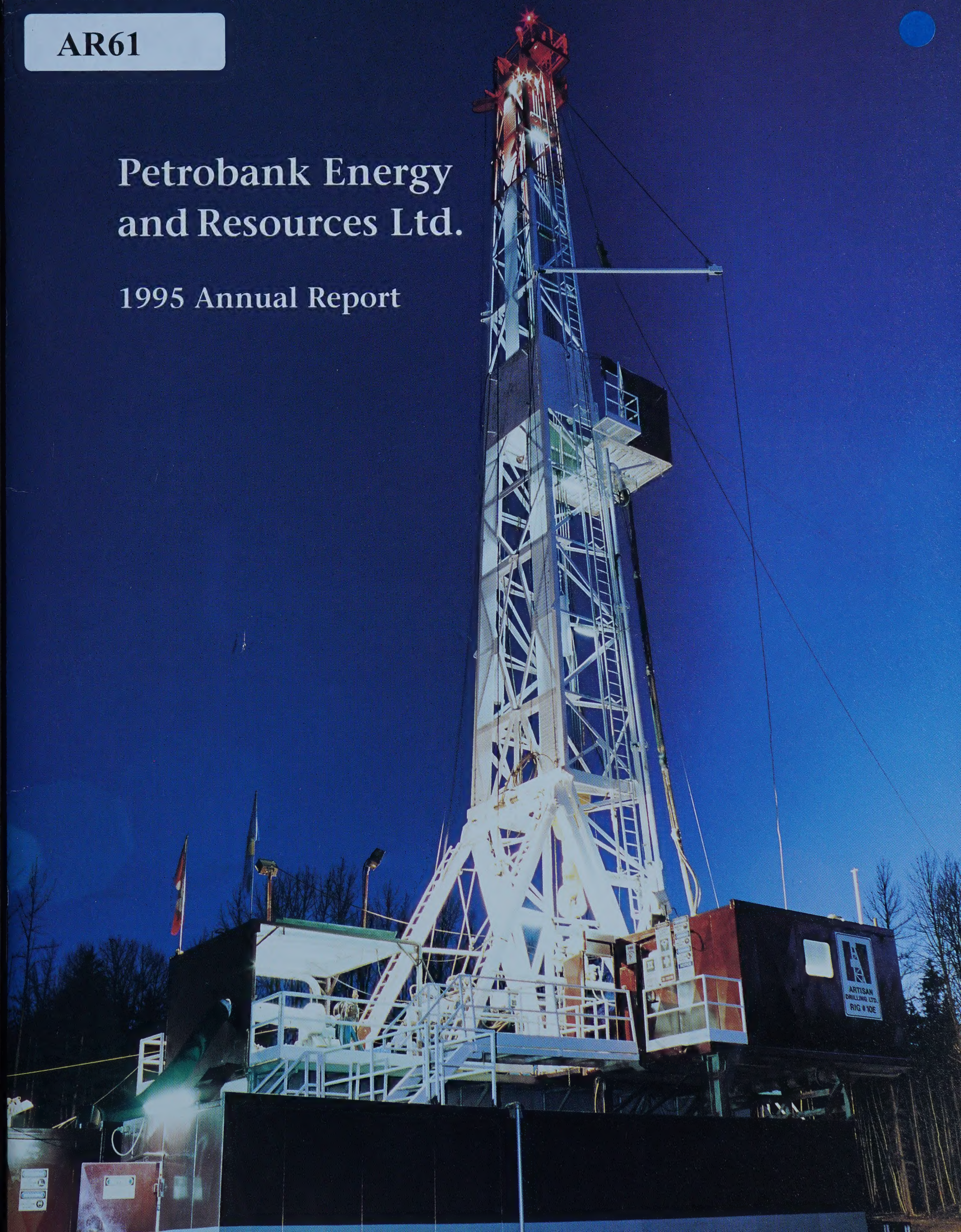
Petrobank Energy and Resources Ltd.

1995 Annual Report



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ANNUAL MEETING

The Annual General Meeting will be held Thursday, June 13, 1996, at 10:00 AM in Room "A" of the Conference Centre, 3rd Floor, 707 - 8th Avenue S.W., Calgary, Alberta.

Shareholders are cordially invited to attend the Company's Annual General Meeting, and those unable to do so are requested to complete and return the Proxy Form to Montreal Trust Company of Canada, Corporate Trust Department, #600, 530 - 8th Avenue S.W., Calgary, Alberta T2P 3S8

PRESIDENT'S MESSAGE TO SHAREHOLDERS

1995 was Petrobank's first full year of operations since becoming listed on the Alberta Stock Exchange in mid-1994. A year ago we set as our objective the commencement of production and cash flow from our core area at Alder Flats, and the development of some large target, well documented, exploration prospects in Alberta and the U.S. We are pleased to report that the objectives for the year have been substantially achieved.

In the Company's core area, Alder Flats, the first two wells were placed on production at year end, and a third well was connected on February 1, 1996. Initial production is 2.5 to 3 million cu. ft. per day with 90 - 100 barrels of liquids. The wells are capable of higher production rates but are constrained by processing capability of the South Alder Flats Gas Plant.

Land holdings at Alder Flats now total over 10,000 net acres of prospective lands providing the base on which to continue development over the next several years.

The Company's strategy is to combine low risk development with large potential exploration exposure. During 1995, big target projects in both Canada and the U.S.A. have been undertaken, land acquired, and seismic obtained and processed. Drilling of some of these is planned for 1996 utilizing, as much as possible, third party funds.

During 1996 we expect to undertake a financing sufficient to drill low risk development projects at Alder Flats, Calmar, and possibly another development area. This work should result in a cash flow large enough to enable the Company to finance future development out of cash flow with future financings limited to funding for large new projects.

During the year several personnel changes have been made. Bernie Gallant has been appointed a director in addition to his role as Vice-President of Exploration. Ken Tompson, an experienced and talented explorationist, has joined the Company as Vice-President and Chief Geologist, and Kristine Vanderham has been placed in charge of land administration.

We expect to establish rapid future growth in reserves and cash flow in 1996 and beyond. Meanwhile exploration success could result in sudden and large growth for the Company.

The continued support of all associated with the Company, and of our shareholders, is appreciated.

James D. Tocher
President
April 16, 1996

OPERATIONS OVERVIEW

Petrobank Energy and Resources Ltd. (the Company) is focusing on two objectives:

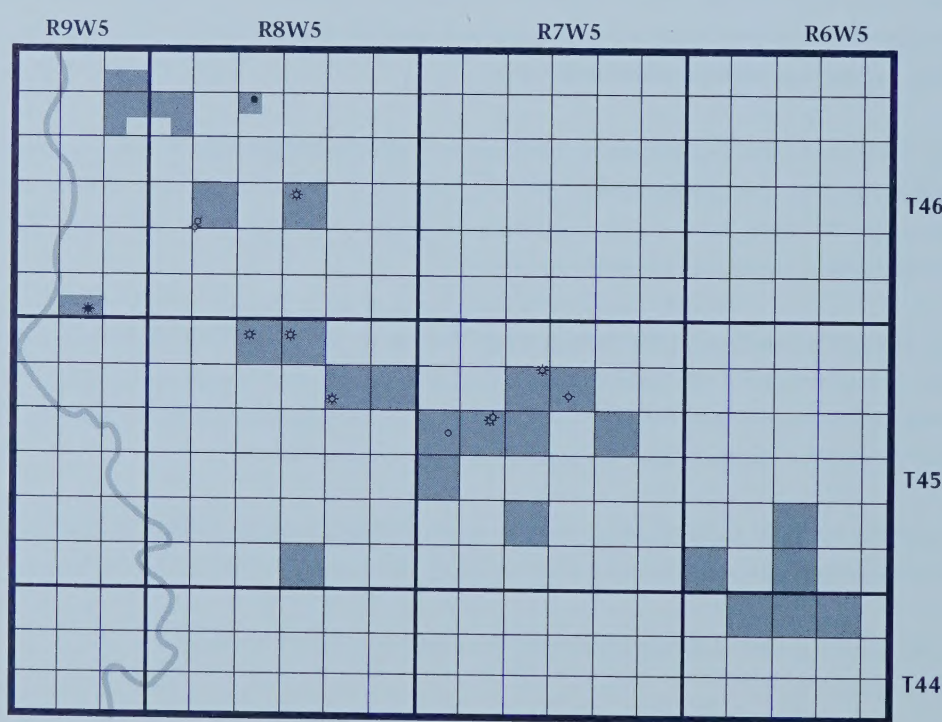
- Low risk development of long life gas and gas liquids reserves in its core area, Alder Flats, and in its Calmar D2 oil prospects; and

- Higher risk large potential exploration projects such as its Leduc D3 prospects in Alberta and the Texas and Mississippi Gulf Coast prospects.

To the maximum possible, the drilling of these prospects is to be financed by non-equity funds such as limited partnerships or industry farmouts.

PRODUCING PROPERTIES

Alder Flats, Alberta



This is the Company's core area in Alberta. The Company has rights and interests ranging from 43% to 100% in 23 sections of land (14,720 acres) with potential for gas and gas liquids in the Rock Creek formation as well as up to five other zones above the Rock Creek. The Company has additional lands under option and intends to increase its interest through further land acquisitions during the next few months.

The Company has four completed Rock Creek wells, and one drilled and cased in the Alder Flats area. Two of the completed wells were placed on production at year end, and a third was placed on production February 1, 1996. These wells will be limited initially to production of 2,500,000 to 3,000,000 cu. ft. per day and about 90 - 100 barrels of liquids by the capacity of the contract processing facility. As part of the development plan for the Alder Flats area the Company has made application to the AEUB in early 1996 for a permit to build its own processing plant.

The Company financed the drilling of these wells by the sale of a portion of the gas reserves in the ground to be delivered over the next ten years. The balance of the gas, approximately one half, is sold to the same buyer at $1.40 per GJ for three years. As a result of this form of financing the Company's reserves and cash flow from Alder Flats have been obtained at little or no cost to the Company, and are stated as net of the repayment.

As a result of these wells proving additional locations, during 1996 the Company will drill at least two wells for its own account significantly increasing it reserves and cash flow from the area.

Craigmyle, Gartley and Bashaw

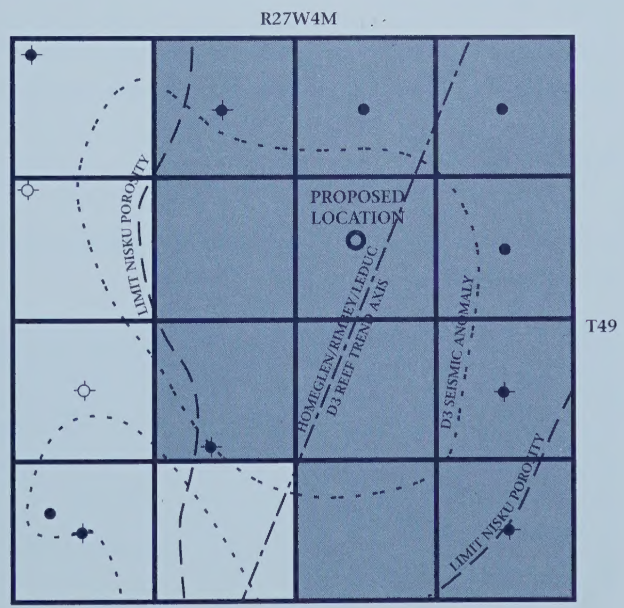
These are three single well properties with relatively long life reserves. In two of these areas the Company plans additional acquisition and development during 1996.

EXPLORATION - DEVELOPMENT

South Calmar

This is a development project in the D2 and an exploration project in the D3, a few hundred feet below the D2. The target in the D2 is up to 500,000 barrels of oil, and in the D3 up to 1,000,000 barrels.

The South Calmar property is located on top of the D3 buildup of the original Leduc field and on the axis of the Homeglen Rimbey Leduc D3 trend. Drilling should commence before June of 1996.



EXPLORATION

Simonette South, Alberta

The Company has negotiated the right to acquire a two section lease block which, based on old seismic data, has been interpreted to contain a D3 pinnacle reef prospect. The Company may conduct a 22 km 2D seismic program over the prospect in mid 1996 if further reprocessing of recently acquired seismic does not define a location. A well to test the D3 prospect will be planned for the fall of 1996.

The Simonette D3A pool, to the north had initial recoverable reserves of approximately 58,000,000 bbls of oil and 273 Bcf of natural gas. A D3 buildup at Simonette South, if present, could have comparable reserves.

Texas, U.S.A.

The Company recently acquired a seismic option on the McGill Stewart Ranch located in Township 23S18E, Kenedy County, Texas.

The 16,349 acre ranch is located on the prolific Frio oil and gas trend on strike with the Sarita field to the northeast and the Santa Rosa field to the south. The property has been unleased since the 1970's and is highly prospective for Frio sands at 11,000 to 12,000 feet of depth. Only six wells have been drilled on the property previously and none since the 1970's.

On exercise of its option, the Company will have a 74% NRI lease on the property.

Early indications from the seismic reprocessing are that prospects exist on the property and if so, arranging drill testing on a farmout basis or partnership should be feasible in 1996.

RESERVES

The reserves were evaluated as at January 1, 1996 by John P. Hunter & Associates Ltd. as shown in the following table.

Volumes	**Working Interest**		**Net**	
	Gas Mmcf	**NGL's Mbbls**	**Gas Mmcf**	**NGL's Mbbls**
Proved and Probable	2,924	182	2,353	124
Discounted Value ($000's)				
	Undisc	**10%**	**15%**	**20%**
Total Proved and Probable (Escalated Prices and Costs)	6,110	3,961	3,317	2,834
Total Proved and Probable (Constant Prices and Costs)	4,122	2,901	2,509	2,203

AUDITORS' REPORT

To the Shareholders of
Petrobank Energy and Resources Ltd.

We have audited the consolidated balance sheets of Petrobank Energy and Resources Ltd. as at December 31, 1995 and 1994 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Calgary, Canada
April 2, 1996

Ernst + Young
Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at December 31

	1995 $	1994 $
ASSETS		
Current		
Cash and short term deposits	**568,993**	399,021
Accounts receivable	**283,762**	6,027
Prepaid expenses	**5,100**	—
	857,855	405,048
Property and equipment [notes 2 and 4]	**4,239,364**	691,076
	5,097,219	1,096,124
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities [note 6]	**1,168,842**	97,231
Notes payable [notes 3, 6 and 8]	**243,059**	—
Prepaid gas sales contract - current portion [note 4]	**269,279**	—
	1,681,180	97,231
Prepaid gas sales contract [note 4]	**1,600,721**	—
Future site restoration	**540**	—
Shareholders' equity		
Share capital [note 5]	**1,897,841**	1,143,449
Limited partnership units [note 1]	**254,870**	—
Deficit	**(337,933)**	(144,556)
	1,814,778	998,893
	5,097,219	1,096,124

See accompanying notes

Approved by the Board:

Director

Director

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

For the years ended December 31

	1995 $	1994 $
Revenue		
Oil and gas sales	102,032	5,866
Royalties	(9,028)	(744)
	93,004	5,122
Interest income	16,782	6,223
	109,786	11,345
Expenses [note 6]		
Production	42,768	7,376
General and administrative	208,679	148,525
Interest	17,315	—
Depletion, depreciation and site restoration	34,401	—
	303,163	155,901
Loss for the year	(193,377)	(144,556)
Deficit, beginning of year	(144,556)	—
Deficit, end of year	(337,933)	(144,556)
Loss per common share	(0.01)	(0.01)

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

	1995 $	1994 $
CASH WAS PROVIDED BY (USED FOR):		
Operating activities		
Loss for the year	(193,377)	(144,556)
Add non-cash items:		
Depletion, depreciation and site restoration	34,401	—
Funds from operations	(158,976)	(144,556)
Net change in non-cash working capital related to operating activities	(158,503)	45,372
	(317,479)	(99,184)
Financing activities		
Proceeds from issuance of common shares	1,084,500	1,200,051
Proceeds from issuance of limited partnership units	500,000	—
Issue cost of common shares	(10,608)	(131,700)
Proceeds from notes payable	672,059	—
Repayment of notes payable	(429,000)	—
Proceeds from prepaid gas sales contract	1,870,000	—
	3,686,951	1,068,351
Investing activities		
Acquisition of property and equipment	(4,234,843)	(691,076)
Proceeds on disposal of property and equipment	88,064	—
Net change in non-cash working capital related to investing activities	947,279	50,975
	(3,199,500)	(640,101)
Increase in cash	169,972	329,066
Cash and short term deposits, beginning of year	399,021	69,955
Cash and short term deposits, end of year	568,993	399,021
Funds from operations per share	(.02)	(.01)

See accompanying notes

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Petrobank Energy and Resources Ltd., a public company incorporated under the Alberta Business Corporations Act, is engaged in the production, and development and exploration of oil and natural gas.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, 650582 Alberta Inc., which is the general partner in the Petrobank Energy I Limited Partnership (the "Partnership"). They also include the accounts of the Partnership, as the Company has the option and intends to convert the Partnership units into common shares of the Company no later than December 31, 1997. The value to be paid for each unit of the Partnership shall be determined based on the pro-rata share of each unit to the total number of units in the Partnership multiplied by the fair market value of the oil and gas properties owned by the Partnership at the date of conversion.

Under the Partnership agreement, 500,000 limited Partnership units were sold for $500,000. The net amount of $254,870 reflected in the consolidated financial statements represents the gross proceeds received less $245,130 of tax benefits accruing to the limited Partners. Of the 500,000 units issued, 475,000 were issued to an officer and director of the Company.

Property and Equipment

The Company follows the full cost method of accounting for its oil and gas operations whereby all costs related to the acquisition of petroleum and natural gas properties are capitalized. Such costs include land and lease acquisition costs, annual carrying charges of non-producing properties, geological and geophysical costs, and costs of drilling and equipping productive and non-productive wells. All general and administrative costs are expensed. Proceeds from disposals are recorded as a reduction of the related expenditures without recognition of a gain or loss unless the disposal would result in a change of 20% or more in the depletion rate.

Depreciation and depletion of the petroleum and natural gas properties and production and gathering facilities are computed using the unit-of-production method based on the estimated proven reserves of oil and gas determined by independent consultants. Reserves are converted to common units on the basis that ten thousand cubic feet of natural gas is equivalent to one barrel of oil and liquids.

The Company applies a ceiling test to capitalized costs to ensure that such costs do not exceed estimated future net revenues from production of proven reserves at year end market prices less future production, administrative, financing, site restoration and removal, and income tax costs plus the lower of cost or estimated market value of unproved properties.

Depreciation of office equipment is provided using the declining balance method at an annual rate of 20%.

Future Site Restoration

Estimated future site restoration and removal costs, net of salvage values, are provided using the unit-of-production method based on estimated proven reserves. The annual charge is accounted for as an expense and the accumulated provision is reflected as a deferred liability. Actual site restoration costs are deducted from the accumulated provision in the year incurred.

Prepaid Gas Sales Contract

Advance payments received under the prepaid gas sales contract for gas which will be delivered in future is deferred and is recognized as revenue when such deliveries are made.

Per Share Amounts

Per share amounts are calculated using the weighted average number of common shares outstanding during the year.

Flow-through Shares

Under the terms of the flow-through share issue, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Company, the value of the properties acquired and the shares issued are recorded net of the tax benefits renounced to subscribers when the related expenditures are incurred.

Joint Operations

The majority of the oil and gas operations of the Company are conducted jointly with others and accordingly these financial statements reflect only the proportionate interests of the Company in such activities.

2. PROPERTY AND EQUIPMENT

	1995			1994
	Cost $	Accumulated Depletion and Depreciation $	Net Book Value $	Cost and Net Book Value $
Petroleum and natural gas properties	3,928,206	29,052	3,899,154	655,519
Production and gathering facilities	335,994	2,494	333,500	27,670
Office equipment	9,025	2,315	6,710	7,887
	4,273,225	33,861	4,239,364	691,076

At December 31, 1995, property and equipment includes costs of $390,500 for which no corresponding tax basis exists.

3. NOTES PAYABLE

Notes payable consist of demand notes bearing interest at the bank prime lending rate plus 1%. No collateral has been provided for the loans.

4. PREPAID GAS SALES CONTRACT

In 1995, the Company entered into an agreement to forward sell a portion of its future natural gas production. In February, 1996, the agreement was amended to increase volumes covered under the contract. Under the terms of the agreement and its amendments, the Company has committed to deliver 4,222,222 gigajoules of natural gas over a ten year period commencing March 1, 1996 and for aggregate cash proceeds of $2,533,333.

The consideration received under the forward sales agreement has been deferred and will be recognized as revenue over the period of gas deliveries.

The Company has assigned its interest in certain of its natural gas properties as collateral for the delivery of gas under the forward sale.

In addition, the purchaser has agreed to purchase over the same ten year period an equivalent quantity of natural gas at a predetermined price subject to adjustment in years 4 and every year thereafter, of the contract. The purchaser also has a right of first refusal on production in excess of these volumes from certain of the Company's properties.

The Company's scheduled delivery obligations of natural gas under the forward sales contract and the corresponding annual recognition of revenue from the contract in future periods is as follows:

	Scheduled Deliveries Natural Gas (Gigajoules)	Annual Amortization $
1996	448,800	269,279
1997	535,300	321,200
1998	511,000	306,600
1999	511,000	306,600
2000	486,666	292,000
Thereafter	1,729,456	1,037,654

5. SHARE CAPITAL

Authorized

Unlimited number of common voting shares.
Unlimited number of preferred shares issuable in series.

Issued

Common shares	Number	Consideration $
Balance, December 31, 1993	3,000,000	75,098
Public offering	3,500,000	350,000
Private placement	2,620,208	655,051
Exercise of options	100,000	10,000
Flow-through issue	616,666	185,000
Share issue costs	—	(131,700)
Balance, December 31, 1994	9,836,874	1,143,449
Exercise of options	250,000	25,000
Private placement	670,000	234,500
Flow-through issue	1,312,500	525,000
Flow-through issue	750,000	300,000
Share issue costs	—	(10,608)
Tax benefits related to qualified expenditures renounced to subscribers of flow-through common shares	—	(319,500)
Balance, December 31, 1995	12,819,374	1,897,841

The Company completed flow-through share offerings whereby 1,312,500 and 616,666 common shares were issued in 1995 and 1994 respectively for total considerations of $525,000 and $185,000 respectively. In accordance with the terms of the offerings and pursuant to certain provisions of the Income Tax Act (Canada), the Company is required to renounce, for income tax purposes, to the holders of the common shares $525,000 and $185,000 of exploration expenditures effective as of December 31, 1995 and 1994, respectively. To recognize the component of the foregone tax benefits to the Company, the value of petroleum and natural gas properties acquired and the common shares issued have been reduced by $319,500.

On December 27, 1995, the Company issued 750,000 additional flow-through shares for gross proceeds of $300,000 which require the Company to renounce $300,000 of its expenditures on petroleum and natural gas properties by February 29, 1996.

Stock options outstanding	Number	Exercise Price $
Balance, December 31, 1994	1,122,000	.10 - .23
Exercised	(250,000)	
Issued	340,000	.30
Balance, December 31, 1995	1,212,000	

The options expire between September 26, 1998 and October 18, 2000.

Warrants

There were 308,333 warrants issued in 1994 pursuant to the flow-through share issue and an additional 335,000 issued in 1995 pursuant to the private placement. Each warrant entitles the holder to acquire one common share at a price of $.40 per share and $.50 per share respectively. The warrants expire June 21, 1996 and August 30, 1997.

6. RELATED PARTY TRANSACTIONS

The Company paid the following amounts to an officer and director and to a company controlled by the officer and director:

	1995 $	1994 $
Interest	8,368	—
Rent	21,600	20,400
Fees for office and management services	69,600	12,000
Fee paid for assisting in the acquisition of petroleum and natural gas properties	—	50,000

Accounts payable includes an amount of $15,673 (1994 - $50,976) payable to this related party. Notes payable includes an amount of $172,526 payable to this related party.

7. INCOME TAXES

The provision for income taxes differs from the amount that would have been expected by applying corporate income tax rates to income before income taxes. The principal reasons for this difference are as follows:

	1995 $	1994 $
Loss before income taxes	(193,377)	(144,556)
Statutory income tax rate	45.00%	44.00%
Anticipated tax provision	(87,020)	(63,605)
Increase (decrease) in income tax resulting from:		
Non-tax based depletion	1,305	—
Amortization of share issue costs	(12,808)	(11,590)
Deferred tax debit not recognized	98,523	75,195
Income tax provision	—	—

The Company has non-capital losses for income tax purposes of approximately $761,000 which are available for application against future taxable income and which expire in the years 2001 ($218,000) and 2002 ($543,000). The potential benefits resulting from the non-capital losses have not been recorded in the financial statements.

The Company has unrecorded deferred tax debits of $64,000 pertaining to the share issue costs.

8. SUBSEQUENT EVENT

On February 29, 1996, notes payable of $70,533 were converted into 173,000 common shares of the Company.

OFFICERS

James D. Tocher, President, Chairman and Chief Operating Officer

The founder of Petrobank, Jim Tocher has over forty years of experience with major and independent oil and gas companies in Canada, the U.S., and internationally. He began his career in Canada with Imperial Oil in the 1950's leaving it to form his own exploration service company in 1960. In 1962 he sold it and began the Canadian operation of King Resources Company . In 1966 he was promoted to executive vice president and moved to the U.S. headquarters in late 1967. Shortly thereafter he became founder and president of International Resources Ltd., a company with operations in over 20 countries world wide. In 1973 he and Mr. J. L. Oaks founded Taiga Energy Inc., a company specializing in the development of gas properties in the United States. Taiga was sold in 1978 to a Canadian public company. Since then he has founded two private oil and gas companies, one Canadian, one American and a public mining company, International Curator Resources Ltd. Currently he is a director of International Curator, a director of Champion Resources Inc. and co-founder and chairman of VX Optronics Corp., a company developing optoelectronic products.

Jerald L. Oaks, Vice-President

Jerry, a petroleum engineer, has 38 years of management and operational experience beginning at Phillips Petroleum Company where he served for eleven years in many diverse managerial positions domestically and internationally. From 1969 to 1972 he was in senior positions with International Resources Ltd. From 1978 to 1979 he and Mr. Tocher built and sold Taiga Energy Inc. In 1980 he became co-founder and President of Petrobank Operating Company in Denver, which holds interests in over 200 wells in central Colorado and Pennsylvania. He has continued in this position.

Bernard T. Gallant, Vice-President, Exploration

Bernie's 39 years of geologic and management expertise began at Imperial Oil Ltd. in its western Canadian operations. As Vice-President of Exploration for Pan Ocean Ltd., he supervised a large team of exploration geologists developing plays in Canada, the U.S., Ireland, the Dominican Republic, Columbia, Niger and Australia. In 1985, Mr. Gallant established a consulting practice and private oil and gas company, Trove Resources Ltd., a position he held until joining Petrobank in 1994.

Bruce S. Smith, Vice-President Engineering & Production

Bruce's 20 years of experience in process and petroleum engineering began with Cominco Ltd. working as a mechanical and senior project engineer. In his 11 years with Dome, and later Amoco, he was drilling supervisor - Beaufort Sea Division, field supervisor and stimulation specialist - Drilling and Completions and Technical Coordinator - central U.S. and International operations, Tulsa Oklahoma. Returning to Canada in 1991, he founded and was President of Consulting Engineering Services, a petroleum engineering consulting firm working principally for junior oil and gas companies in Alberta. Bruce joined Petrobank in September of 1994.

Kenneth M. Tompson, Vice-President & Chief Geologist

Ken Tompson brings to Petrobank 18 years of diverse experience as an exploration/development geologist. Mr. Tompson commenced his career in 1978 after earning a Bachelor of Science degree in Honors Geology from the University of British Columbia. Mr. Tompson has a proven track record and has held technical/managerial positions throughout his career. Most recently he was the President and CEO of Coastal Plains Resources Ltd., an unlisted publicly held junior oil and gas company. He is a registered Professional Geologist (Alberta) and a member of the Canadian Society of Petroleum Geologists.

Solveig Kubbernus, Corporate Secretary & Treasurer

Solveig is Administrative Assistant to James Tocher. She has been with the Company since it's inception.

Michael J. Krueger, Assistant Secretary

Michael is one of the founding shareholders of the Company and is employed with the legal firm of Sharpe & Krueger in Kingsville, Texas. Mr. Krueger was admitted to the Wisconsin Bar in 1978 and the Texas Bar in 1979. He is a member of the American Bar Association.

DIRECTORS

James D. Tocher *
President,
Petrobank Energy and Resources Ltd.
Calgary, Alberta, Canada

Jerald L. Oaks
President,
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Louis L. Frank *
Independent Businessman &
Venture Capitalist,
North Woodstock, NH, USA

Arthur W. Menzies *
President,
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Bernard T. Gallant
Vice-President, Exploration
Petrobank Energy and Resources Ltd.
Calgary, Alberta, Canada

* Members of the Audit Committee

ABBREVIATIONS

Mcf	thousand cubic feet
Bcf	billion cubic feet
Bbls	barrels
GJ	gigajoules
NRI	net revenue interest

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